

Keywords: Copyright license; asset transfer; bankruptcy; claim preclusion

General: Sale of bankruptcy debtor's rights in computer software bars plaintiff's claim for copyright infringement because plaintiff participated in the bankruptcy proceeding and did not object to the transfer.

ITOFCA Inc. v. MegaTrans Logistics Inc.
66 U.S.P.Q.2d 1014 (7th Circuit 2003)
Decided March 7, 2003

I. Facts

In 1986, ITOFCA developed a computer program called "Comprehensive Intermodal Program" to help its member-owners with their shipping. Later, ITOFCA transferred most of its assets to ICI. Although the asset agreement stated that ITOFCA desired to transfer all of its assets, except a building and some cash, the asset agreement also stated that it desired to retain substantially all the property and assets and transfer only those assets used and necessary in the operations of the transportation services being transferred. ICI subsequently created and used a derivative of the original program. However, in 1991, ICI found itself in chapter 11 bankruptcy, and the bankruptcy court, with no opposition from ITOFCA, approved the sale to Amerifreight of ICI's right, title, and interest in all patent, copyright and trade secret rights in and to all computer software and corresponding documentation developed or acquired by ICI. Amerifreight expressly acknowledged that ICI may sell additional copies of the software to other parties and that the license is non-exclusive in nature. Amerifreight then assigned all of its rights acquired from ICI to MegaTrans. MegaTrans modified the software program, and then licensed it to others. ITOFCA subsequently sued MegaTrans for copyright infringement. In the district court, MegaTrans filed a motion for summary judgment of non-infringement, which the district court granted.

II. Issues

1. Whether the doctrine of claim preclusion should preclude ITOFCA's suit for copyright infringement.

III. Discussion

1. In a rambling and poorly organized majority opinion, the Seventh Circuit stated that when a bankruptcy court approves the sale of an asset of a debtor, a person who has notice of the sale cannot later void it on the ground that he is the asset's real owner. ITOFCA argued that all the sale did was transfer whatever copyright interest ICI had, and the only interest it had was a license to use the copyrighted program that had been transferred to it by ITOFCA. However, the majority held that the terms of the bankruptcy court's order refute this interpretation, because the order states that ICI is free to sell additional copies of the software, and this implies that Amerifreight, as well as MegaTrans, were free to sell copies as well. Therefore, the majority concluded that ICI and its transferees must have had more than a license to use the software, because such a license would not include a right to make or sell additional copies.

In a surprisingly concurring (and well organized) opinion, Judge Ripple expressed grave concern that the majority affirmed the district court's grant of summary judgment by holding that ITOFCA's suit for infringement is precluded by the doctrine of claim preclusion due to the failure

to object to the bankruptcy court's order. Judge Ripple noted that the doctrine of claim preclusion is meant to strike a delicate balance between the interest of the defendant and of the courts in bringing litigation to a close, and the interest of the plaintiff in vindication of a just claim. Specifically, Judge Ripple noted that to maintain an appropriate balance, certain controls exist. For example, claim preclusion, or *res judicata*, must be raised as an affirmative defense, in this case by MegaTrans. Where the issue is decided on summary judgment, the party with the burden of proof must establish each element of claim preclusion as a matter of law. Accordingly, the principles of *res judicata* should not be applied where reasonable doubt as to what was decided in the first action may preclude the drastic remedy of foreclosing a party from litigating an essential issue.

In this case, Judge Ripple disagreed with every basis on which the majority based its holding. First, Judge Ripple noted that the bankruptcy court's order was ambiguous as to which assets ICI was selling. Judge Ripple also noted that the majority explicitly stated that the record was unclear as to exactly what property rights ITOFCA has conveyed to ICI under the asset agreement. Indeed, for each reason relied upon by the majority in this regard, Judge Ripple eloquently noted ambiguities and issues of fact sufficient to permit a reasonable fact finder to determine that the asset agreement failed to transfer the alleged rights in the copyright. Ultimately, however, Judge Ripple concluded that there is significant force in the majority's view that, although it is not possible to determine exactly the contours of ICI's right, ICI must have had the right to sell because the order reserved ICI's right to sell additional copies to others. On this basis, there must have been an actual or implied non-exclusive right to exercise such rights.